

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 EA-10 ISO-00 EB-08 AGRE-00 TRSE-00

OMB-01 OPIC-03 CIAE-00 INR-10 NSAE-00 AID-05 /060 W

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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 8365

USDOC WASHDC

INFO AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: BENC, EAGR, NI

SUBJECT: MAJOR PROJECT FOLLOWUP: NIGERIAN FERTILIZER COMPLEX

REF: (A) STATE 109515, (B) LAGOS 5113

1. APPRECIATE DEPARTMENT'S QUICK FOLLOWUP ON REFTEL B.
2. EMBASSY PETROLOFF CALLED ON DR. EKE AGAIN MAY 9 WITH VISITING DUPONT REPRESENTATIVE KENNETH CLARK TO DISCUSS DUPONT'S INTEREST IN SETTING UP AMMONIUM NITRATE PLANT TO MANUFACTURE EXPLOSIVES WHICH DUPONT CURRENTLY EXPORTS TO SUCH USERS AS OIL AND TIN AND COAL MINING INDUSTRIES. EXPLOSIVES PLANT, A SMALL PROJECT TO COST UNDER DOLLARS 10 MILLION, COULD BE TIED IN WITH AMMONIA END OF FERTILIZER COMPLEX. EKE ENCOURAGED CLARK TO SUBMIT FORMAL PROPOSAL.
3. DURING COURSE OF CONVERSATION, EMBOFF OBTAINED ADDITIONAL INFORMATION ON FERTILIZER COMPLET ITSELF. WORLD BANK TEAM NOW COMING ON MAY 15 TO 24. MINISTRY OF INDUSTRIES (MOI) PERMSEC ALHAJI ABUBAKAR HAS REJECTED EKE'S RECOMMENDATION THAT FMG TAKE

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100 PERCENT EQUITY IN FERTILIZER COMPLEX AND HIRE TECHNICAL PARTNER ON MANAGEMENT SERVICES CONTRACT, WILL INSIST ON JOINT VENTURE. HOWEVER, ALHAJI ABUBAKAR HAS APPROVED JOINT VENTURE TECHNICAL PARTNER TAKING LESS THAN ORIGINALLY PLANNED TO 30 TO 40 PERCENT EQUITY. EKE SAID HE IS AUTHORIZED TO BARGAIN WITH POTENTIAL PARTNERS, AND ADDED IN CONFIDENCE THAT, DEPENDING ON THE EXPERIENCE AND STATE OF TECHNOLOGY OFFERED BY PARTNER, PLUS

EXTENT TO WHICH PARTNER WILL GUARANTEE OPERATION OF PLANT, HE CAN ACCEPT TO A MINIMUM 20 PERCENT FOREIGN EQUITY.

4. IF W.R. GRACE NOT INTERESTED, WE OBVIOUSLY CANNOT FORCE THEM TO TAKE A SECOND LOOK. HOWEVER, IT SEEMS GRACE MAY BE OPERATING UNDER SOME BASIC MISCONCEPTIONS ABOUT ENTIRE SCOPE AND PURPOSE OF NIGERIAN PROJECT. ONE OBJECTION RAISED BY GRACE SPOKESMAN IN PARA 2 REFTEL A WAS THAT FERTILIZER PRODUCED IN NIGERIA COULD NOT COMPETE ON WORLD MARKETS. EKE SAID THER HAS NEVER BEEN ANY INTENTION TO EXPORT FERTILIZER PRODUCED BY COMPLEX. ACCORDING TO STUDY BY SCIENTIFIC DESIGN OF LONDON, PLANT WILL MEET DOMESTIC NEEDS ONLY UNTIL 1985 AND WILL THEN HAVE TO BE EXPANDED. HOWEVER, EVEN IF THERE SHOULD BE ANY SURPLUS, EKE SAID, IT WOULD GO TO ECOWAS COUNTRIES WHERE IT WOULD RECEIVE PROTECTION FROM COMMON MARKET AGAINST IMPORTS FROM NON-ECOWAS SOURCES. (COMMENT: THIS IS ONE OF FIRST EXAMPLES WE HAVE HEARD OF TANGIBLE, PRACTICAL IMPACT OF ECOWAS ON WEST AFRICAN TRADE.)

5. POSSIBLY IT MAY HELP GRACE, AND OTHERS, TO GET A BETTER IDEA OF NIGERIAN MARKET IF PLANNED OUTPUT OF FERTILIZER COMPLEX IS CONTRASTED WITH CURRENT IMPORTS. EKE SAID PORT HARCOURT COMPLEX WILL PRODUCE 1,500 METRIC TONS PER DAY OF AMMONIA, 1,500 MT PER DAY OF UREA, AND 1,200 MT PER DAY OF NPK FERTILIZERS. IN RECENT INTERVIEW, ALHAJI IMRANA YAZIDU, CHAIRMAN OF NATIONAL COMMITTEE OF OPERATION FEED THE NATION, TOLD LAGOS BUSINESS TIMES REPORTER THAT FERTILIZER PROCUREMENT AND DISTRIBUTION DURING THE CURRENT LIMITED OFFICIAL USE

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1978/79 FISCAL YEAR IN CONNECTION WITH OFN WILL COST FMG NAIRA 40 MILLION (DOLLARS 64 MILLION). TOTAL QUANTITY IMPORTED WILL BE 243,000 MT, INCLUDING SINGLE SUPERPHOSPHATE, UREA, SULPHATE OF AMMONIA, CALCIUM MAGNESIUM NITRATE, NPK 15-15-15, NPK 20-20-0, NPK 26-120-0, NPK 18-18-5, BSP, AND MURIATE OF POTASH. FEDERAL SUPERPHOSPHATE FERTILIZER COMPANY IN KADUNA PRODUCES 33,400 MT PER YEAR. PRESENT TOTAL ANNUAL CONSUMPTION IN NIGERIA IS ABOUT 280,000 MT. ACCORDING TO EMBASSY AGRICULTURAL ATTACHE, IT IS QUITE POSSIBLE THAT PRODUCTION OF PORT HARCOURT COMPLEX WILL BE ENTIRELY CONSUMED DOMESTICALLY. FMG IS PLACING HEAVY EMPHASIS ON DEVELOPMENT OF AGRICULTURE AND INTENDS TO GO IN FOR LARGE SCALE FARMING. OF NIGERIA'S 928,000 SQUARE KILOMETER AREA, AT LEAST 70 PERCENT IS ARABLE. SEVENTY PERCENT OF NIGERIA'S POPULATION OF SOME 70 TO 80 MILLION PEOPLE ARE RURAL. BY EARLY TO MID-1982 WHEN PORT HARCOURT COMPLEX COMES ON STREAM, TOTAL NIGERIAN FERTILIZER CONSUMPTION SHOULD BE IN NEIGHBORHOOD OF 500,000 MT PER ANNUM, HIGHER IF FMG PLANS ARE ACTUALLY IMPLEMENTED IN THOROUGH FASHION. PORT HARCOURT COMPLEX WILL OF COURSE NOT START UP AT FULL CAPACITY, BUT WILL TAKE TWO OR EVEN THREE

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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 8366

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YEARS TO REACH PRODUCTION FIGURES CITED ABOVE. THUS DISPOSAL OF EXCESS PRODUCTION THROUGH EXPORTS WOULD NOT SEEM TO PRESENT MUCH OF A PROBLEM.

6. ON SUBJECT OF FINANCING, EKE SAID TOTAL COST OF PROJECT NOW ESTIMATED AT DOLLARS 550 MILLION, OF WHICH 70 PERCENT (DOLLARS 385 MILLION) WILL BE FOREIGN EXCHANGE COSTS AND 30 PERCENT (ABOUT NAIRA 100 TO 105 MILLION) LOCAL COSTS. WORLD BANK WILL LEND MAXIMUM OF DOLLARS 150 MILLION. FMG HAS SET ASIDE NAIRA 70 MILLION. IF FOREIGN PARTNER TAKES 30 PERCENT EQUITY HOLDING, EQUIVALENT TO DOLLARS 50 MILLION ON BASIS OF 70:30 DEBT EQUITY RATIO, THEN FMG WILL OFFER RIVERS STATE GOVERNMENT A 10 PERCENT SHARE-HOLDING, WORTH ABOUT NAIRA 10 MILLION. IF FOREIGN PARTNER TAKES ONLY 20 PERCENT, FMG MAY OFFER THE OTHER 10 PERCENT TO PUBLIC. THUS, FMG CAN COUNT ON DOLLARS 183 TO 200 MILLION FROM WORLD BANK AND TECHNICAL PARTNER, PLUS NAIRA 80 TO 90 MILLION FROM INTERNAL SOURCES. AS LEADING LENDER, WORLD BANK WOULD HELP FMG FIND BALANCE OF ROUGHLY DOLLARS 185 TO 200 MILLION IN LOANS FROM INTERNATIONAL DEVELOPMENT BANKS, ARAB SOURCES, SUPPLIER COUNTRY EXPORT LIMITED OFFICIAL USE

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FINANCE ORGANIZATION, AND/OR COMMERCIAL BANKS.

7. EKE SAID THAT WHEN FERTILIZER COMPLEX BEGINS OPERATION, PHOSPHORIC ACID AND POTASSIUM CHLORIDE WILL HAVE TO BE IMPORTED. HOWEVER, IN SECOND STAGE, PLANS ARE TO PRODUCE THESE MATERIAL LOCALLY, IN ADDITION TO NITRIC ACID. PHOSPHATE ROCK WILL CONTINUE TO BE IMPORTED FROM EITHER TOGO OR MOROCCO.

8. RE LIST OF PREQUALIFIED CONTRACTORS (PARA 8 REFTTEL B), EKE MENTIONED NAMES OF A FEW OF MANY FOREIGN FIRMS. THESE ARE DAVY POWERGAS OF UK, SNAMPROGETTI OF ITALY, F. UHDE OF WEST GERMANY, AND TOYO, CHIYODA AND MITSUBISHI OF JAPAN. WILL TRY TO OBTAIN OTHER NAMES IF POSSIBLE.

9. BIO NOTE: IN ADDITION TO FOUR FIRMS MENTIONED PARA 1 REFTTEL B, EKE ALSO WORKED IN U.S. FOR SINGER. HE HAS KEPT HIS HOUSE IN SOMERSET, NEW JERSEY AND RETURNS TO U.S. FOR VACATIONS.
WYMAN

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